

Human resource policy implications of the regional workforce migration pattern

Case of the clothing industry in the Center Region of Romania

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Abstract

Recent developments in the textile and especially in quality garments industry in the Central Region of Romania present clustering in specific rural areas where skilled workforce is available at relatively low wages level. Textile manufacture and handicraft traditions in the region and proper infrastructure, have attracted investments mostly from the European Union.

The producers, working on Lohn base for global brand owners and marketers, are faced with the strategic challenge coming from the value chain pressure of global marketing player customers and changes in the local workforce markets.

The workforce migration pattern of the region, especially from the rural areas, and local economic development contribute to shortages in the low skilled workforce market. Research results presented in the paper demonstrate the high sensitivity of the human resource management system of garments companies to workforce fluctuations. The seasonality of workforce fluctuations in the producer companies shows a similar pattern to the reported migration data and is linked to the periods of agricultural campaigns and that of the traditional holidays.

Reducing the workforce fluctuation and migration effects has become one of the strategic goals of the companies' human resource policy and strategy. Public – private partnership are needed for local policy elaboration and action in order to stabilize the local work force markets. The local governments are especially interested in this, due to the important contribution of the clothing producers to female and youth employment.

Introduction

The textile industry in Romania was developed during the communist regime based on the advantages offered by this industry for the economic policy of the socialist regime:

- Massive employment of low skilled workforce.
- Working places in the developing cities for the workforce migrating from rural areas.
- Massive employment of female workforce, which was in accordance with that of socialist policy, involved the equality of women and men, especially in the field of employment.
- Relatively low level of investment per workplace in comparison with other industries.
- High level of incomes from exporting, which has contributed to the successful management of the foreign debt of the state economy.

The textile industry was composed of large (employing several thousand people) state owned producer plants subordinated to the central directorate of the ministry of textile industry. The marketing activity was under the severe control of the state and secret police because of the frequent contacts with foreign citizens and the contracting trips abroad. The production was based on a nationwide planning process and no competition was in place between companies. Customers of the industry were coming from all over the world: high quality garments were produced for Western Europe, while the relatively low quality mass production went to the Soviet Union and the Middle East. The newcomers from rural areas could easily compensate the instabilities of workforce caused mostly by the severe working conditions and the authoritarian management style. The preferred saying of the management was that "For each vacation there are ten people waiting". Discipline, quantity, stability, authority and central planning were the basic values of the organization culture in the industry.

The political changes in 1989 found the textile industry working at full capacity with an obsolete technology and army like management style. At the beginning of the nineties the clothing industry underwent a crisis period in Romania and Eastern Europe. The crisis was the result of the:

- Disappearance of the eastern markets together with the treaty dissolution of the COMECON.
- Revolution and the massive workforce demanding the resignation of the managers.
- Appearance of the politically influenced unions.
- Huge inflation creating pressure on wages.
- Low level of flexibility of the marketing and export offices.
- Obsolete technology and management methods.
- High levels of production costs.

The Romanian government started the rapid privatization of the industry to escape from this socially and economically embarrassing situation. Similar processes were reported from other countries in Eastern Europe (Kalantaridis, Slava, Sochka, 2003). Parallel to the privatization, subcontracting linkages were established through intermediaries located in the economies of Hungary and Western Europe. But soon, in the early nineties, western investors and local management started to take over and modernize the former state owned factories. In the mid and late nineties, green field investors started new ventures in the quality clothing industry. After several years of shrinking and massive restructuring, the textile industry recovered in ten years and achieved almost the same level of employ-

ment than before 1989. In year 1999 Romania overpassed Poland and became the number one lohn production partner for the European Union. The total garment export to the EU amounted to 2.1 billion Euro, composed mostly by cutting, making and trimming for western markets. In 1999, a number of 4.650 companies employed 218,000 people and the value of exported products amounted to 1.6 billion USD. The production cost per minute was 0.12 USD similar to the production costs in India. Taking into account the transport costs to the EU are lower than to India or Asia, the cost structure presents a competitive advantage for Romania clothing producers in Romania (Handolescu, 2001).

In the year 2000, the light industry produced 2,4% of Romania's GDP, 7% of the industrial production, 32.7% of exports and employed 22% of the industrial workforce.

Unfortunately, technology development occurs only in the quality garments industry. The textile raw material production remains in the bad shape left by the former communist regime. This will maintain keep the lohn-based production for a long time, because of the high quality expectations of western customers.

The market conditions are radically different now, and the dependence from the state institutions was replaced by the integration to the global marketers and brand owners in the lohn production chain. Competition is forceful, insecurity has appeared and for each working place disposed nobody is waiting anymore at the gates. The old organizational culture is still resisting the change. The low level of commitment to quality and productivity, the high level of workforce fluctuation and increasing wage demands create difficulties for investors to realize their profit expectations. The challenge faced by the industry: include increasing competition, technology based innovation and high quality and diversity expectations acting together with the low profit share from one side, and increasing life quality expectations and shrinking of the available human resources on the other side.

The region

We looked into the human resource policy challenge regarding the textile industry in the eastern part of the Central Region of Romania, which is formed by Brasov, Covasna, Harghita, Mures, Alba and Sibiu counties, according to the regional development policy and legal framework. The production plants researched are located in Covasna county: Sf. Gheorghe, Estelnic, and in Harghita county: Odorheiu Secuiesc and Gheorgheni.

The eastern part of the Central Region presents the characteristics of a rural area, more than the southern and western parts of the region. Traditional, pre-modern culture and social organization are still present. More than half of the population lives in villages surrounding the small cities. The production plants researched use workforce commuting from the nearby villages.

The culture and management style of the companies in the region was researched first within the framework of the GLOBE (Global Leadership and Organizational Behavior Effectiveness) research program in the food industry (Tanko, 2004).

The research findings indicate that the society is characterized by

- High level of risk avoidance;
- Great power distance;
- Individualism;
- Low differentiation of the gender roles;

- High level of social assertivity and aggressiveness;
- Low level of performance orientation;
- Low level of future orientation;
- Very low level of human orientation.

The fact that during its history, the area was integrated into multi-ethnic states has led to ethnic heterogeneity, Hungarians, Romanians, Germans and Gypsies living side by side. The establishment of cross-national networks, contributed to the flows of information from more developed markets to the region. The geographical extent of these networks was augmented by a tradition of temporary and permanent out-migration from Transylvania to Hungary and Germany.

Despite the socialist industrialization at the end of last century, the local economy of the region maintained a strong dependence upon agriculture and exploitation of natural resources. The dramatic decline in the state owned employment provided by the existing industries during the period of post-socialist transformation had significant implications for employment and wage levels in the region. The shortage of industrial jobs increased the significance of agriculture. Out migration from cities to rural areas and considerable expansion in subsistence agriculture was recorded, as a short-term solution to social pressure of poverty.

Glocalization in the garments industry

The Lohn-based production creates a strong dependency of the producers on the marketers and brand owners. The clothing industry produces to the global market. Until recently, competition was driven mostly by technology innovation. However, in the global and regional competition, the clothing industry passed over the phase seem to technology based competition, and human resources become a much more important factor of competition in the industry. Globalization should be considered as a set of interrelated processes. The results of these processes are influenced by the characteristics of the local socio-economic setting. Globalization refers to the functional integration among geographically dispersed activities (DICKEN et al., 1998).

We are using the concept of glocalization to describe the globalization processes that are strongly influenced by the local context. Glocalization implies: global integration and local embedding. Empirical evidence supports the hypothesis that in the clothing industry local embedding can have an important contribution to the global success of the company.

The gradual abolition of the protectionist framework that governed trade in textiles and clothing until 1993, geographical proximity to the major EU markets and lower wage costs than in Western European countries, has led to a renaissance of export oriented clothing companies in Eastern Europe. However, empirical evidence from elsewhere in the world raises considerable concerns about the long term viability of this pattern of growth, driven by the expansion of low-cost clothing manufacture for international markets (Mc Callum, 1999).

Dependence invariably characterizes the relationships between producers in low wage regimes and parent enterprises in advanced industrialized countries. As a consequence, the former remain detached from their main markets and unable to move further up the supply chain. Thus, increases in production costs, and especially wages lead to the intensification of competition among producers and relentless pursuit of cheap and adaptable labour. This is manifested in an informalization and network-

ing process, and more importantly, the decentralization of production elsewhere in the world. Strategic options in the buyer driven commodity chains are:

1. The cold shower: stay cool and leave as quick you entered.
2. Become an intermediate: integration with western partners, followed by new intermediary position as marketer between center and periphery
3. The lonely Mohikan: follow your own indigenous market, developing your own brand and distribution network.
4. Glocalize: flexible specialization, global integration and local embedding.

The global integration of a production company should be considered as a consequence of the paradigm shift from the Fordist mass production to flexible specialization. This is a fundamental reorganization of capitalist production, complemented with the geographic mobility of production resources, especially money and know-how (Essletzbichler, 2003). Authors on global competitiveness underline the need for permanent "upgrading" – to make better products, more efficiently, or move into more skilled activities (Porter, 1990).

In a globalizing economy- when all production factors are mobile and accessible worldwide - the only enduring basis for competitive advantage will be localized and based on tacit knowledge (Humphrey, Schmitz, 2002).

The analysis of industrial clusters in developing countries builds on these perspectives, focusing on the role of local linkages in generating competitive advantage in labour-intensive export industries such as footwear and garments. The insertion into global value chains affects local upgrading strategies. Global value chain analysis emphasizes that local producers learn a great deal from global buyers about how to improve their production processes, attain consistent and high quality, and increase the speed of response. The integration into global quasi-hierarchical facilitates inclusion and rapid enhancement of product and process capabilities. Developing country firms are able to export to markets that would otherwise be difficult for them to penetrate. On the other hand, they become tied into relationships that prevent functional upgrading and leave them dependent on a small number of powerful customers. Various ways of breaking out of quasi-hierarchy can be taken in consideration:

- To use knowledge acquired in working for their main global buyer to supply other markets.
- To move into functions which the lead firms governing the value chain are willing to relinquish (logistics, organizing further links of the chain, developments, design adaptations).
- To move into related competency based industry.

The local context is important for the regions that have the advantage of location and convenient access, possess a reservoir of cheap and adaptable workforce and maintain institutions that promote entrepreneurship and offer training services for the labour force. The rural region in the center of Romania offers almost all of these characteristics. When labour intensity and cut-throat competition in terms of price is forcing western producers to move away, the low wage rural periphery can be an attractive geographic area to locate the new production plants. The past activity of large state clothing factories created skilled workforce and prepared the people for the specific working culture of the industry.

The existence of private owned family farming and the traditional local rural community contribute to the sustainability of low wages. Our research, based on interviews with people working in clothing

industry, suggests that the earnings coming from factory work are considered complementary to the multi-sourced family income, rather than the basis for living. However, this is not the case of young workers living in towns, whose only source of income is their workplace. This is one of the reasons why recently some small production plants have relocated their production to rural areas in order to save transportation costs of commuting and reserve more spare time for their employees to do the agricultural works. The sustainability of the low production costs depends on the speed of modernization and evolutions in the expectations of rural people regarding quality of life and consumer habits. Rural development policies can contribute to keep costs in rural areas lower than in urban cities and to slow down the expansion of consumer mentality, which will increase costs of living and create demand for wage increase.

Differences between rural and urban manufacturing companies were reported from studies in Western Europe. Remote rural manufacturing plants are seen to follow a production-cost-oriented export strategy, while accessible rural firms adopt a more innovation-oriented export strategy. In contrast, urban manufacturing plants use their reputation-based competitive advantage to service relatively large local markets. The competitiveness of rural firms is particularly influenced by the quality of transport infrastructure, the availability of suitably qualified staff, and external trade factors (Patterson, Anderson, 2003).

Externalities, like dimension and density of local workforce market can also have a strong contribution to the difference between urban and rural firms. The flow of workforce in the companies is considered to be a less important factor in rural than in urban firms. Rural companies face fewer salary-motivated resignations than urban ones. The larger the labour market, the more likely firms are to find an individual that meets precisely the requirements of a vacancy and the more likely a job seeker is to find a job offer matching his/her skills. Firms are expected to experience fewer difficulties of recruitment and to resort more to external labour markets in big cities than in rural areas. Rural firms experience stronger difficulties of recruitment than those urban counterparts but offer more stable jobs and register less separation. This is especially true for small firms (Blanc, Cahuzac and Tahar, 2003).

The success of the globally integrated firms depends also on the embeddedness in their environment. Schnell and Sofer give an excellent review of the concept of the embeddedness in their study on Arab firms in Israel (Schnell and Sofer, 2003).

The markets in which entrepreneurs operate are considered as both fields of power and cultural constructions. The concept of entrepreneurs and firms' embeddedness was introduced by Polanyi and Granovetter. According to them, economic action is embedded and enmeshed in social and political ties and institutions as much as in economic institutions. Polanyi's work is concerned with a wide variety of institutions such as religion, prestige, kinship, community, government and welfare state. Granovetter emphasized that social and communal networks were essential for the success of entrepreneurship. He highlighted the role of concrete personal networks in developing the necessary mutual trust for economic success, and the importance of supportive social mechanisms within the environment in which economic activities are embedded. In order to make the concept of embeddedness operational, it is useful to consider networks and abstract structures in which these networks are embedded. A network may include economic tangibles like labour force, raw material, capital and price discounts, as well as intangibles like information, general goodwill or ethnic attitudes. Economic agents develop direct and indirect networks in order to improve their competitiveness in markets. Such network systems are self-constituting, self-organizing and self-reproducing, in which agents

attempt to gain trust, power and awareness of horizons of opportunities and risks in order to improve their position within the system. The networks are characterized by a set of complementary dimensions: reciprocity, interdependence, loose coupling and power relations. The essence of the embeddedness approach is the structure and quality of exchange ties, which identify the manner in which enterprise relationships are incorporated into a network.

The model proposed by Schnell and Sofer, structures the complex nest of entrepreneurial networks into four strategic connection types:

1. Business culture: linking agency interdependence to the structure of communities of trust
2. Relational networks: linking horizons of awareness to elites and organizations
3. Direct business network: linking reciprocity and market regulating institutions
4. Power relations: linking sense of influence and political institutions.

Relational networks wrap direct networks. Both networks are practiced within a cultural context, in which meanings and norms of operation are structured, and within power relations, in which degrees of freedom in maneuvering actors' goals are structured. In the social structural aspect, it relates to the establishment of communities of trust and mutual support that may provide entrepreneurs with some advantages on the markets.

In our research we followed the methodology proposed by the authors. In this paper, we will only focus on the effects of workforce migration on companies strategy building.

The strategic challenge of the workforce instability

We based our research on the consideration that strategic options of companies located in the region depend fundamentally on their possibilities to build on human resources available in the local workforce market. From the strategy perspective of global integration, not only the cheap and skilled workforce is important. Upgrading based on tacit knowledge will require stable workforce in place, confidence and trust.

According to a recent survey on the workforce migration done by the International Office for Migration in Romania, almost two million people are involved countrywide in migration related to working abroad (IOM, 2003). This is about one third of Romania's active population. The migration profile of Covasna county, where the researched companies are located indicates that 6.5% of the adult population has already worked abroad, 11.4% of the households' has at least one member working abroad and 11.9% of the adult population has plans to work abroad in the future. These figures are close to the country averages.

Research papers analyzing the data of the two national census (1992, 2002), confirm the increase of migration outflow from the region (Horvath, 2003).

According to Horvath, the migration pattern is sustained by a complex network of family and community relations. An industry of service providers for migrants, including transportation, visa issues and workforce intermediation, emerged in the last ten years. The destination countries for migrants from our region are mostly Hungary, Germany, Italy and Spain. Unfortunately, detailed analyses of the professional pattern of migration are still missing. However, from the communication of staff working in the companies researched, some of their colleagues work in the clothing industry after migration to Hungary. Workforce intermediation companies put advertisements in the local newspapers looking

for trained labour in the garments industry.

For strategy building of the companies, the high expectation for migration from the region, especially in the domain of skills required in the garments industry, can be considered as a major threat of wasting resources invested in training people. Fluctuation created by the unexpected resignations and illegal medical holidays creates serious problems to the production organization charts annexed.

The fluctuation seen from the chart, on the one hand confirms the expectation that, if we have a company of the same dimensions in an urban and in a rural area, then the urban company faces a higher level of absenteeism than the rural one. On the other hand, for the different locations and workforce market situations the larger company in an urban location has smaller rate of absenteeism than a smaller counterpart in an urban area. However, the unemployment rate in the city is 4% smaller in the case of urban2 than in the case of urban1. This also can have an important effect on the behavior in the sense that higher unemployment leads to a more mobile workforce.

The seasonality shown by the chart is similar for the all three companies. This fact suggests an industry specific characteristic related to seasonal changing of the models in the production lines. The effect of the migration pattern is difficult to relate to the fluctuation data. We consider this as an externality, which influence the behavior of the workforce.

At the interviews conducted human resource managers of the companies and middle management personnel informed us about their observation of the effects of difficulties created by change processes on people's willingness to leave. In the push and pull factor approach of the migration theories, the seasonal changes in the clothing industry can play a push factor role in inducing migration. This can be important when opportunities to work abroad have the same seasonal pattern, as it usually happens in the case of massive strawberry harvesting seasons in Western Europe.

In the case of regions with a high level of migration preparations, we suppose the existence of a strong correlation between the dimension of risk avoidance in the culture of the region, the increase of insecurity at the workplace and migration decision moments.

Further research is needed to elaborate on these uncovered fields.

Conclusion and policy recommendation

The management and national culture, as well as the economic conditions of the workforce employed in the clothing industry of the region are important factors of. At the same time, the quality expectations of the customers and advancements in the field of technology need a more stable workforce in production plants. The development of the competencies required by the integration in the global value chain of quality garments is costly and this should be considered an investment rather than production costs. The mobility of workforce decrease the return on the competency investment and creates an obstacle to the development of team based management procedures and culture of empowerment.

In order to decrease fluctuation by reducing mobility, a cooperative regional human resource policy is recommended:

1. Cooperation with the members of the quality garments producer cluster in the design and organization of the workforce training and establishing a common wage policy and professional standards in the region.

2. Cooperation with the local community, especially in the rural area, in the field of local economic development. Increased embeddings and higher contribution to the modernization of the local economy will be the benefits of this.
3. Cooperation with the migrants, helping them find proper workplaces abroad, respect legal provisions, and come back and invest in the homeland community.

In a postmodern value system, rural life can be positioned as a higher quality living environment (healthy natural environment, independency, ownership) than the urban one. In order to use this paradigm shift from the traditional to postmodern, clothing industry should reposition itself as a rural development agent as well, not only a low wage employer.

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Appendix.

Map of Romanian statistical regions (NUTS 2):

Source: Ministry of European Integration www.mie.ro [accessed, 21 august 2004]

Development region

Counties forming the statistical region



1 – NORTH EAST

Bacău, Botoșani, Iași, Suceava, Vaslui

2 – SOUTH EAST

Brăila, Buzău, Constanța, Galați, Tulcea, Vrancea

3 – SOUTH MUNTENIA

Argeș, Călărași, Dâmbovița, Giurgiu, Ialomița, Prahova, Teleorman

4 – SOUTH WEST OLTENIA

Dolj, Gorj, Mehedinți, Olt, Vâlcea

5 – WEST

Arad, Caraș – Severin, Hunedoara, Timiș

6 - NORTH WEST

Bihor, Bistrița–Năsăud, Cluj, Maramureș, Sălaj, Satu Mare

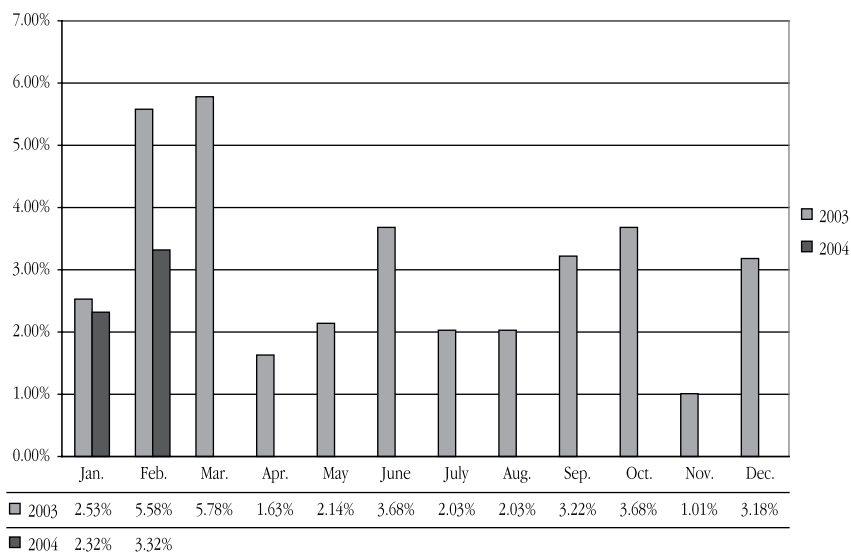
7 – CENTER

Alba, Brașov, Covasna, Harghita, Sibiu, Mureș

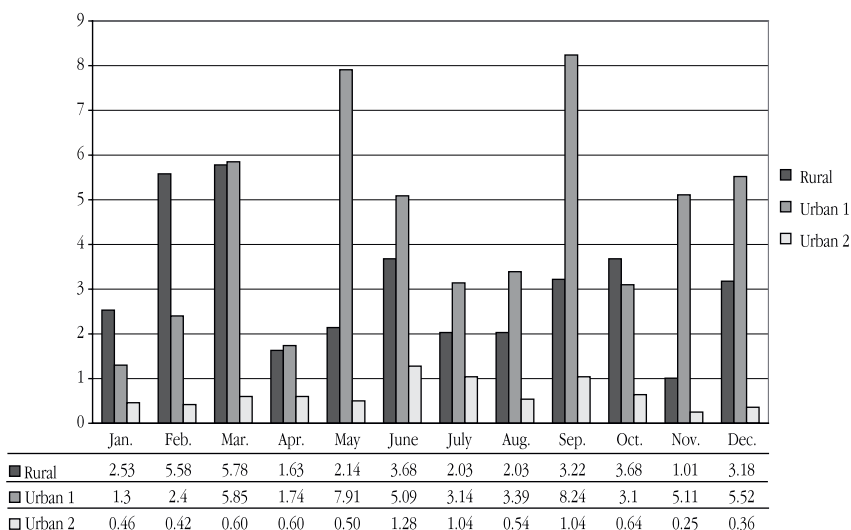
8 – BUCHAREST ILFOV

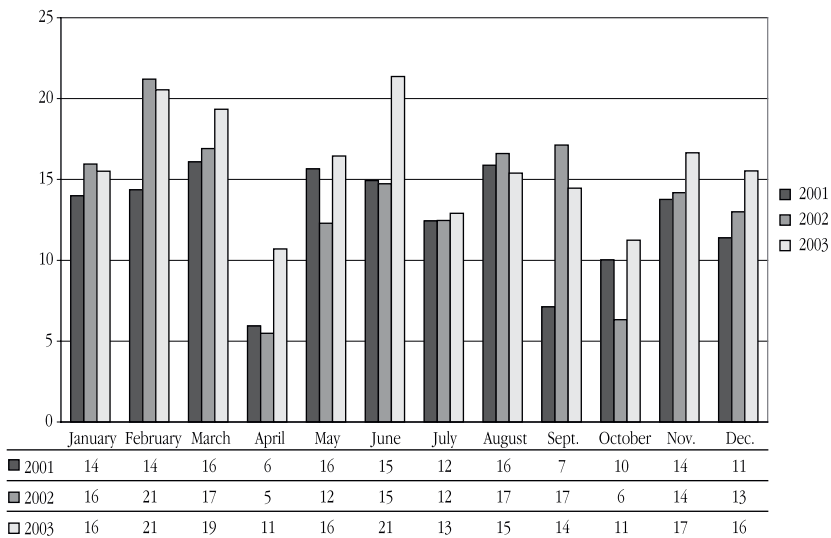
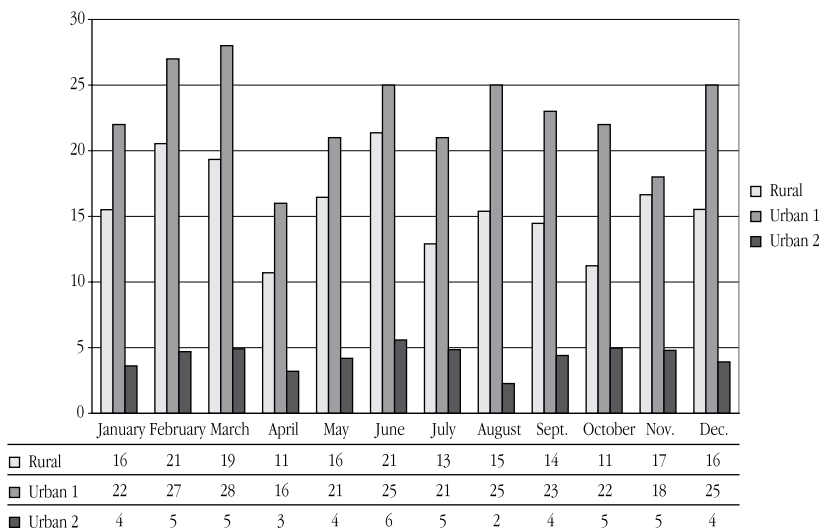
București, Ilfov

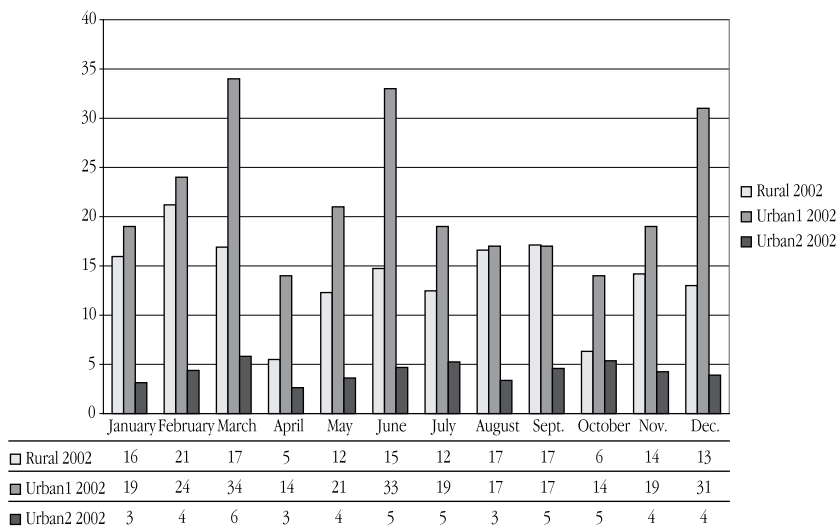
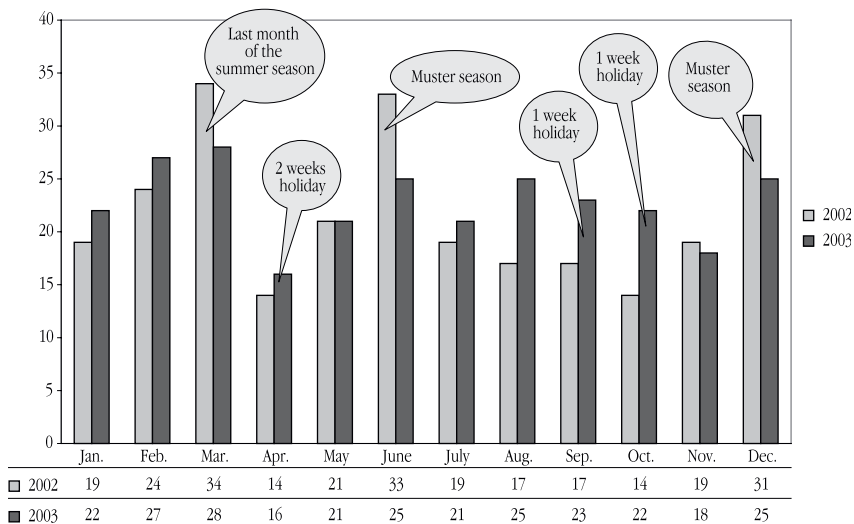
Fluctuation Rural 2003

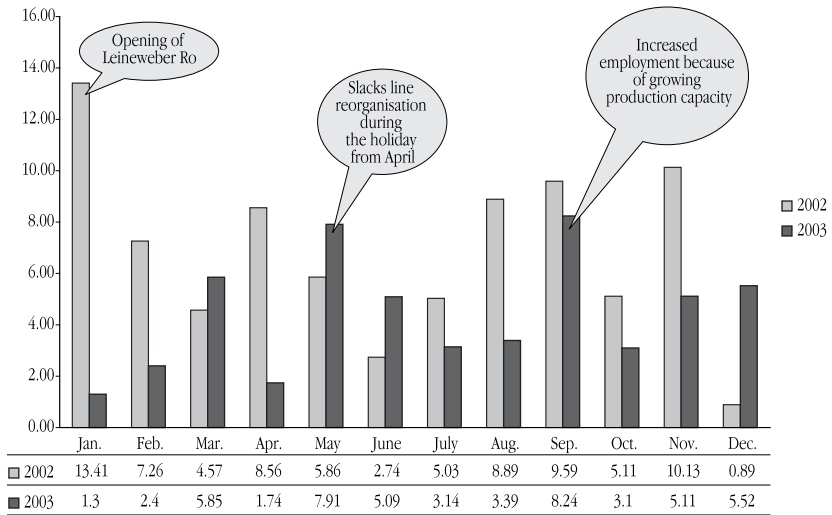
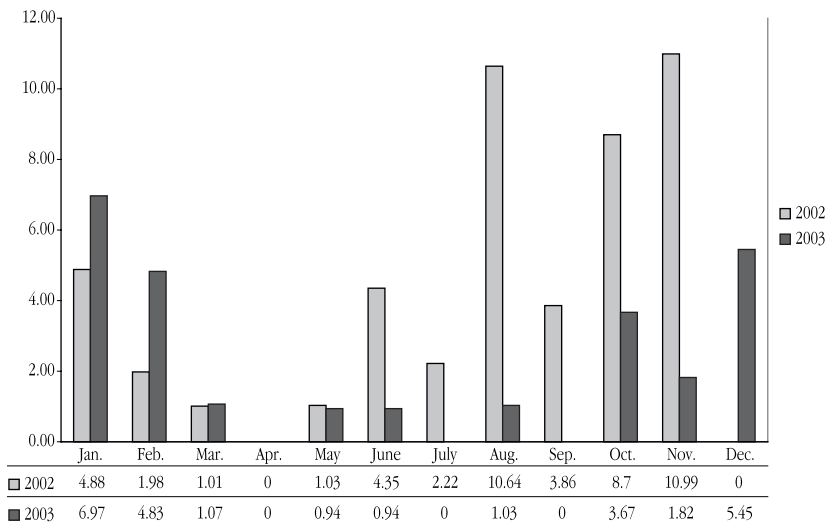


Fluctuation Rural compared with Urban1 and Urban2 in 2003



Absentism rate – rural – 2001-2002-2003**Absentism 2003 – Rural compared with Urban1 and Urban2**

Absentism Rural compared with Urban1 in 2002 and Urban2**Absentism Urban1 2002 - 2003**

Fluctuation Urban1 2002 - 2003**Fluctuation Urban1 2002-2003**

Absentism Urban2
2002 - 2003

